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UNCLAS ANKARA 006231

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: ETRD EPET PREL TU IZ

SUBJECT: SOMO ARREARS TO TURKEY AND FUEL SHORTFALL TO IRAQ

REF: A. ANKARA 6095
 B. ANKARA 3842
 C. BAGHDAD 2845

SENSITIVE BUT UNCLASSIFIED

¶1. (SBU) MFA informed EconOff on October 13 that SOMO arrears (45 days past product delivery) to Turkish fuel suppliers had grown to \$750 million and urged the USG to make demarches in Iraq to alleviate this growing problem (Ref A). According to the MFA, SOMO recently annulled 22 of 36 contracts with Turkish suppliers (for insufficient or late delivery of product), thus explaining the current shortfall in SOMO trucks. (SOMO truck shipments are very volatile, depending on conditions, but in normal times average 600-800 trucks moving south per day. Over the last week, since a one day closure for construction, trucks have totalled 200-300, with a particularly dramatic fall-off in "benzene"-gasoline.) MFA emphasized that the Foreign Economic Relations Board (DEIK in Turkish), representing the bulk of Turkish suppliers, was getting increasingly restive about the (repeated) arrears problem. She promised to forward a list of the cancelled contracts when available.

¶2. (SBU) MFA noted that the GOT Foreign Trade UnderSecretariat had met with SOMO in late August to resolve problems and SOMO had made a significant payment at that time. On September 22 Foreign Trade sent a letter to SOMO explaining why there had been delays in shipments over the preceding month, primarily due to new export license procedures to attempt to control fuel trade. Despite this, MFA stated that SOMO had cancelled a large number of contracts, many of which were providers of benzene. This further exacerbated the problem and put many of these companies in greater difficulty (having acquired fuel and now finding their contracts annulled.) MFA asserted that Foreign Trade was not currently holding up authorization of fuel export.

¶3. (SBU) Post has long noted that fuel exports will remain challenged as long as there is just the single Habur Gate, but the border gate does not appear to be the source of the current problem. Customs officials have implemented reasonable measures to facilitate passage of fuel, but not enough fuel is now arriving at the gate. Current construction to renovate and expand the gate explains some portion of the delay, but delays and/or shortfalls will likely be exacerbated unless and until SOMO makes significant payments to reduce arrears.

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